

Message Text

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ACTION EA-09

INFO OCT-01 AF-08 ARA-06 EUR-12 NEA-10 ISO-00 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-04 USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04

TRSE-00 ACDA-07 PA-01 PRS-01 /136 W

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P R 100930Z AUG 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 6118

INFO AMEMBASSY ABU DHABI

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUALA LUMPUR

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY QUITO

AMEMBASSY SINGAPORE

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY PARIS

AMEMBASSY VIENNA

USMISSION OECD PARIS UNN

USMISSION EC BRUSSELS

AMCONSUL HONG KONG

AMCONSUL MEDAN

AMCONSUL SURABAYA

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E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: GOI-OIL COMPANY NEGOTIATIONS

REF: A) JAKARTA 10163, B) JAKARTA 10354

1. TWO MORE COMPANIES, TOTAL AND JAPEX, SIGNED LETTERS OF AGREEMENT WITH PERTAMINA ON AUGUST 6, THUS BRINGING TO FIVE NUMBER OF MAJOR PRODUCTION-SHARING CONTRACTORS WHICH HAVE AGREED TO NEW GOI CONTRACT TERMS. (IIAPCO SIGNED AUGUST 6.) SOLE UNSIGNED COMPANY IS PETROMER TREND WHICH IS CONTINUING NEGOTIATIONS WITH PERTAMINA PRESIDENT HARYONO IN EFFORT REACH SETTLEMENT.

2. ACCEPTANCE LETTERS SIGNED BY BOTH TOTAL AND JAPEX FOLLOW CLOSELY LANGUAGE USED IN UNION'S LETTER SIGNED JULY 30. UNDER PART ONE OF LETTER, EACH COMPANY AGREES TO MAKE "FINANCIAL ADJUSTMENT" IN FAVOR OF PERTAMINA FROM COMPANY'S GROSS REVENUES FOR CALENDAR YEAR 1976. CREDITS DUE PERTAMINA ARE CALCULATED ON QUARTERLY BASIS AND ADJUSTMENT SHALL BE DUE 30 DAYS FOLLOWING END OF EACH QUARTER EXCEPT THAT AUGUST 15 IS DUE DATE FOR PAYMENTS COVERING FIRST TWO QUARTERS OF 1976. FINAL PAYMENT DUE NO LATER THAN MARCH 31, 1977, END OF GOI FISCAL YEAR. SECOND PART OF LETTER STATES THAT COMPANIES ARE PREPARED TO ENTER INTO AGREEMENTS WITH RESPECT TO CY 1977 AND THEREAFTER "TO MODIFY THE ACCOUNTING PRINCIPLES GOVERNING THE CALCULATION AND RECOVERY OF OPERATING COSTS: AND TO MAKE AN ADJUSTMENT IN PERTAMINA'S FAVOR WITH RESPECT TO SHARING OF EQUITY OIL". FORMER POINT REFERS TO REPLACEMENT OF OLD COST RECOVERY ALLOWANCE SYSTEM WITH DEPRECIATION SCHEDULE FEATURING DOUBLE-DECLINING BALANCE METHOD; LATTER POINT DEALS WITH 85/15 CRUDE SPLIT.

3. HENCE, AS PRACTICAL MATTER, COMPANIES WILL CONTINUE OPERATING FOR REMAINDER OF 1976 UNDER OLD TERMS BUT WILL PAY ADDITIONAL AMOUNTS AS CALCULATED ON NEW TERMS. THIS MEANS COMPANIES WILL CONTINUE TO HAVE SAME AMOUNTS OF CRUDE TO HONOR EXISTING 1976 CRUDE SALES CONTRACTS. ALTERNATIVELY, PERTAMINA, WHICH HAS

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BEEN EXPERIENCING SOME DIFFICULTIES IN MOVING ITS SHARE OF CRUDE, WILL NOT INCUR ANY ADDITIONAL AMOUNTS OF OIL. (LATTER POINT IS IMPORTANT FACTOR WHICH MANY IN GOI SEEM TO BE UNAWARE OF.) THIS ARRANGEMENT WAS SET UP SO AS NOT TO JEOPARDIZE SO-CALLED GRANDFATHER CLAUSE PROTECTION EMBODIED IN IRS RULING 76-215. PERTAMINA/GOI ANTICIPATE RESUMING DISCUSSIONS IN OCTOBER TO BEGIN IMPLEMENTATION OF PART TWO OF

LETTERS OF AGREEMENT. AT THIS TIME, IT IS ENVISAGED THAT NEW TERMS WILL BE BLENDED INTO NEW MODEL OF PRODUCTION-SHARING AGREEMENT WHICH SHOULD SATISFY REQUIREMENTS OF IRS FOR CREDITABLE TAX PAYMENTS TO INDONESIAN GOVERNMENT.

4. PETROMER TREND CONTINUES TO MEET WITH PERTAMINA PRESIDENT HARYONO IN EFFORT WORK OUT SOLUTION. TREND PRESIDENT WILSON HAS HELD THREE MEETINGS SINCE FRIDAY AND IS SEEING HARYONO AGAIN TODAY. CHIEF PROBLEM STEMS FROM TREND'S DESIRE TO HAVE ADDITIONAL TIME BEYOND MARCH 31, 1977 DEADLINE FOR PAYMENTS. COMPANY ARGUES IT NEEDS MORE TIME TO COME UP WITH CASH REQUIRED TO MAKE FINANCIAL ADJUSTMENTS TO GOI RETROACTIVE TO JANUARY 1, 1976. GOI GENERALLY SYMPATHETIC BUT FACES DIFFICULTIES CONTAINED IN "MOST FAVORED COMPANY CLAUSE" OF UNION AND SUBSEQUENT AGREEMENTS WHEREBY EXTENSION OF TIME FOR TREND WOULD MEAN EXTENSION FOR OTHERS. TREND HOPEFUL GOI CAN MAKE SPECIAL EXCEPTION.

5. OTHER, SMALLER PRODUCTION-SHARING PRODUCERS (ASAMERA, ASSOCIATED AUSTRALIA, CITIES SERVICE, HUFFCO TESORO, CALTEX AND STANVAC)--LATTER TWO UNDER THEIR SEPARATE PRODUCTION-SHARING AGREEMENTS--ARE STANDING BY; THEY ASSUME NO NEWS IS GOOD NEWS IN THIS CASE. NONE HAVE RECEIVED LETTERS REQUESTING PAYMENT; THEY HAVE ONLY BEEN ASKED TO PROVIDE DATA ON PRODUCTION AND RESERVES FOR CLASSIFICATION. COMPANIES IN THIS GROUP ANTICIPATE NO FURTHER ACTION UNTIL OCTOBER TALKS. SIMILARLY, NON-PRODUCERS SUCH AS AGIP, CONOCO, PHILLIPS, ETC. HAVE NOT BEEN APPROACHED ON THIS ROUND. THEY TOO ANTICIPATE HAVING DISCUSSIONS WITH PERTAMINA IN OCTOBER TO DISCUSS APPLICATION OF NEW TERMS. NEWSOM
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